

RENO DE MEDICI

NEUTRAL

Price (Eu): **0.24**

Target Price (Eu): **0.25**

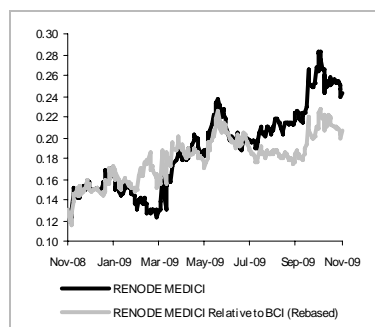
SECTOR: Industrials

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Margin Improvement in 3Q, but Visibility Remains Low

- 9M09 results: good recovery in EBITDA.** In the last quarter the company managed to recover profitability to 6% at EBITDA level, compared with 1% posted in 3Q08. The increased EBITDA margin is mainly due to: 1) deflation in raw materials and energy costs; 2) and secondly to reduction in fixed costs and downsizing of the existing capacity. Looking at 9M09, Reno de Medici sold around 637,000 tons, compared with 675,000 tons in 9M08 (-5% YoY). Sales stood at Eu318.6mn, down 11.3% YoY. 9M EBITDA stood at Eu24.5mn (7.7% margin) +35% YoY vs 2008 adj Ebitda.
- Cash positive quarter, debt officially renegotiated.** Good news came from the NFP, which improved to Eu-132.5mn vs. Eu-135.6mn at the end of 1H. At the beginning of October RdM reached an official agreement with banks for renegotiation of the debt (Eu65mn). The new agreement gives more confidence in the medium term, and above all grants the group a two-year period of grace for the repayment of the main instalments, maintaining the original maturity date (2016).
- Tough year ahead, but we remain confident.** The company stated that market performance will continue to be uncertain for the remaining months of 2009 and the first few months of 2010. In 2010 we expect a slight improvement in volumes, with a 1% increase. More importantly, we think that all major European players will implement a price hike to offset energy cost inflation. We are quite confident that prices will be passed through, especially given the reduction in overcapacity. We now incorporate a 3% increase in prices. As far as costs are concerned, we estimate that higher energy and raw material prices (recycled pulp) will be more than offset by efficiencies and cost reductions next year. Our EBITDA forecast remains unchanged at Eu42mn for 2010.
- NEUTRAL confirmed, we raise our valuation to Eu0.25.** Even if some items are still to be confirmed (a price increase is extremely important to obtain an improvement in EBITDA) we have raised our valuation (based on an EV/ROACE), including an average of the years 2010 and 2011. The reduction in fixed costs and ongoing optimisation of production capacity creates strong operating leverage for the coming years. Nevertheless, we confirm our NEUTRAL recommendation, as visibility on the next few months is still very low.

RENO DE MEDICI - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): From 0.20 to 0.25

Change in EPS est: 2009E 2010E
nm -18.3%

STOCK DATA

Reuters code: RDM.MI
Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-9.3%	17.1%	77.8%
Relative	-3.9%	8.0%	62.3%
12 months H/L:	0.28/0.12		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	91
Total Mkt Cap (Eu mn):	91
Mkt Float - ord (Eu mn):	51
Mkt Float (in %):	56.0%
Main shareholder:	
Cascades	35.0%

BALANCE SHEET DATA

	2009
Book value (Eu mn):	156
BVPS (Eu):	0.55
P/BV:	0.4
Net Financial Position (Eu mn):	-129
Enterprise value (Eu mn):	220

Key Figures	2007A	2008A	2009E	2010E	2011E
Sales (Eu mn)	343	455	419	436	462
Ebitda (Eu mn)	30	40	31	42	45
Net profit (Eu mn)	1	-6	-6	7	9
EPS - New (Eu)	0.01	-0.05	-0.01	0.02	0.02
EPS - Old (Eu)	0.01	-0.05	0.00	0.02	0.02
DPS (Eu)	0.00	0.00	0.00	0.00	0.00
Ratios & Multiples	2007A	2008A	2009E	2010E	2011E
P/E	24.9	nm	nm	13.5	10.3
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	6.9	11.8	7.0	4.9	4.4
ROCE	4.5%	5.5%	1.7%	6.0%	7.8%

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9M09 results: good EBITDA recovery.

In last quarter the company managed to record profitability above 6% at EBITDA level, compared with 1% last year. The increase in the EBITDA margin is mainly due to: 1) deflation in raw materials and energy costs; 2) reduction in fixed costs and downsizing of the existing capacity.

The company's main goal is to continue to optimise production in order to be better placed to deal with the current scenario, and this has been translated into focusing manufacturing activities on the more efficient factories.

At the end of 2008 RdM closed a production line in the Blendecques plant, and this year it has suspended production at the Marzabotto facility. What's more, production has also been brought to a temporary halt in certain other factories.

Looking at the first 9 months of the year, Reno de Medici sold around 637,000 tons, compared with 675,000 tons in 9M08 (-5% YoY). Sales stood at Eu318.6mn, down 11.3% YoY. A similar decline was recorded in 3Q sales, -12.4% YoY to Eu104.5mn.

With regard to costs: energy costs have fallen significantly YoY, although the combination of raw materials (pulp) and energy is showing an upward trend, limited by the further weakening of the dollar.

Even in a very tough macroeconomic environment, RdM has significantly improved EBITDA. In 9M09, EBITDA stood at Eu24.5mn (7.7% margin) +35% YoY. In 3Q EBITDA closed at Eu6.5mn (6.2% margin) compared to Eu1.3mn in 3Q08.

The group incurred a net loss of Eu3.4mn in 9M09, of which Eu2.6mn arose in the 3Q.

9M 2009 Results (€ mn)	9M 08 A	9M 09 A	Q3 2008 A	Q3 2009 A	Q4 2008 A	Q4 2009 A	2008	2009	9M 08 A	9M 09 A
Sales	359.0	318.6	119.2	104.5	96.0	100.4	455.0	419.0	359.0	318.6
Yoy Growth	na	-11.3%	32.4%	-12.4%	32.4%	4.6%	32.8%	-7.9%	na	-11.3%
Other Revenues	4.2	14.3	1.9	5.1	2.7	2.7	6.9	17.0	4.2	14.3
Cost of Raw Materials & Services	-286.9	-248.1	-101.3	-83.2	-82.9	-79.6	-369.8	-327.7	-286.9	-248.1
% on sales	-79.9%	-77.9%	-84.9%	-79.6%	-86.4%	-79.2%	-81.3%	-78.2%	-79.9%	-77.9%
Labour Costs	-55.5	-56.3	-18.3	-18.3	-15.7	-15.7	-67.9	-72.0	-55.5	-56.3
Other Operating	-2.7	-4.0	-0.2	-1.6	-2.7	-1.0	-5.4	-5.0	-2.7	-4.0
EBITDA ADJ	18.2	24.5	1.3	6.5	-2.7	6.8	18.8	31.3	18.2	24.5
Margin %	5.1%	7.7%	1.0%	6.2%	-2.8%	6.8%	4.1%	7.5%	5.1%	7.7%
Badwill	21.2	0.0	0.0	0.0	0.0	0.0	21.2	0.0	21.2	0.0
EBITDA Recurring	39.4	24.5	1.3	6.5	-2.7	6.8	40.0	31.3	39.4	24.5
Margin %	11.0%	7.7%	1.0%	6.2%	-2.8%	6.8%	4.4%	7.5%	11.0%	7.7%
Depreciations	-14.5	-19.9	-6.2	-7.1	-8.4	-6.1	-23.9	-26.0	-14.5	-19.9
Right offs	-1.7	-0.5	0.0	0.0	0.0	0.0	-1.7	-0.5	-1.7	-0.5
EBIT	23.1	4.1	-5.0	-0.6	-11.1	0.7	24.9	4.8	23.1	4.1
Financials	-7.7	-6.4	-2.5	-2.1	-3.4	-2.6	-11.2	-9.0	-7.7	-6.4
Pre Tax	15.4	-2.3	-7.5	-2.7	-14.5	-1.9	14.9	-4.2	15.4	-2.3
Other Items	-2.1	0.0							-2.1	0.0
Taxes	-3.3	-1.1	-0.8	0.0	1.4	-0.3	-1.9	-1.4	-3.3	-1.1
Net Result	9.9	-3.4	-8.3	-2.7	-13.0	-2.1	-5.4	-5.5	9.9	-3.4

Source: Intermonte Sim

Improved NFP in the quarter, debt renegotiated.

Good news came from the NFP, which improved to Eu-132.5mn vs. Eu-135.6mn at the end of 1H. In detail, the gross debt came to Eu139mn, of which Eu66.6mn in the form of long-term loans, and bank credit facilities and other financial liabilities came to about Eu70.5mn, consisting mainly of credit lines based on trade accounts receivables.

The renegotiation of part of the debt (Eu65mn) with banks has been officially concluded. The new agreement instils more confidence in the medium term, and above all gives the group a two-year period of grace for the repayment of the principal instalments, maintaining the original maturity date (2016).

Company outlook

The company stated that market performance will continue to be uncertain for the remaining months of 2009 and the first few months of 2010.

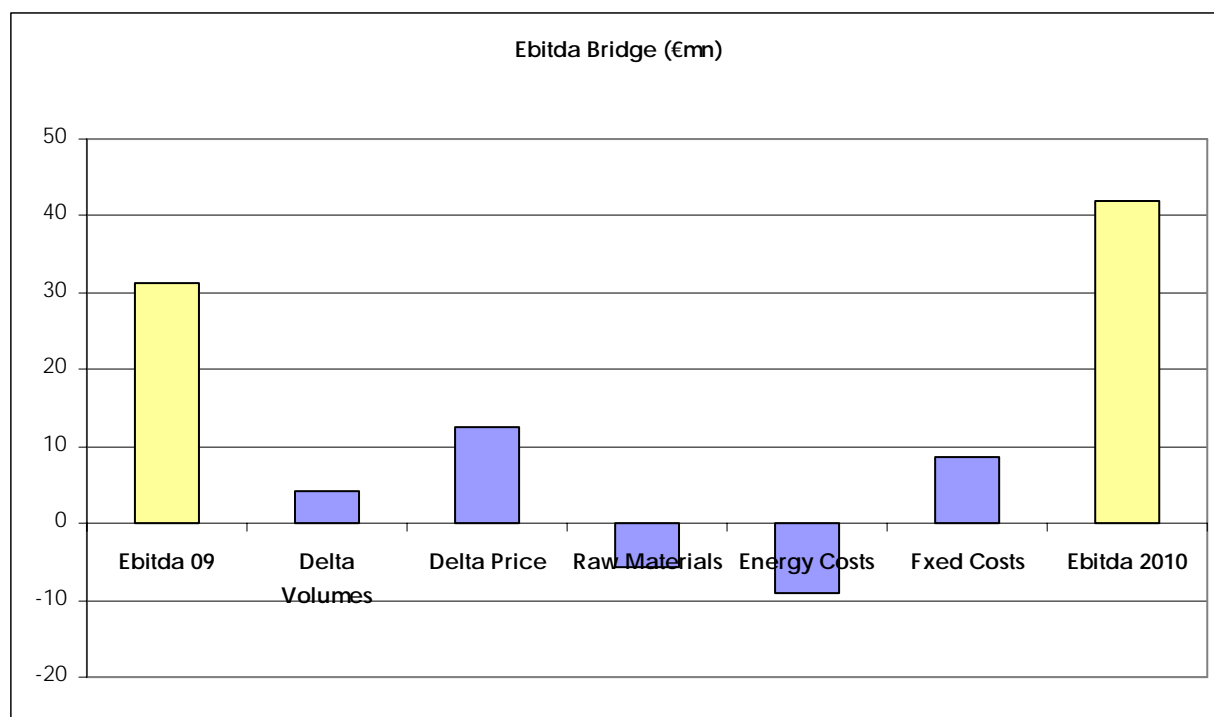
The main threat is structural overcapacity in Europe, indicating that further industrial rationalisation will take place. In terms of short term trends, both raw material and energy costs are being driven upwards. The trend for raw material costs can clearly be seen, albeit within an overall picture of extremely high volatility. Similar trends can be expected for energy costs, where the upward trend could end up being mitigated by the weakness of the dollar.

The most important indication regards prices, with the company saying that it will adjust its sales prices for increases.

Outlook: visibility on volumes still low. estimates confirmed

In 2010 we expect a slight improvement in volumes, with a 1% increase. More importantly, we think that all major European players will implement an increase in prices to offset energy price inflation. We are quite confident that costs will be passed through, especially thanks to the reduction in overcapacity. We now incorporate a 3% increase.

With regard to costs we estimate that the rise in energy prices and raw materials (recycled pulp) will be more than offset by efficiencies and cost reductions next year. Our 2010 EBITDA estimate remains unchanged at Eu42mn.



Source: Intermonte Estimates

RENO DE MEDICI - KEY FIGURES

	2007A	2008A	2009E	2010E	2011E	
	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	
Fiscal year end						
PROFIT & LOSS (Eu mn)	Sales	343	455	419	436	462
	EBITDA	30	40	31	42	45
	EBIT	11	14	5	17	22
	Financial income (charges)	(8)	(10)	(9)	(8)	(8)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	3	(17)	(4)	9	14
	Taxes	1	(2)	(1)	(2)	(5)
	Tax rate (%)	-14.5%	-12.7%			
	Minorities & discontinue activities	(0)	(0)	0	0	0
	Net profit	1	-6	-6	7	9
	Total extraordinary items	(2)	(8)	0	0	0
	Ebitda excl. extraordinary items	30	40	31	42	45
	Ebit excl. extraordinary items	11	14	5	17	22
	Net profit restated	3	(20)	(6)	7	9
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	270	378	378	378	378
	EPS stated fd	0.01	-0.02	-0.01	0.02	0.02
	EPS restated fd	0.01	-0.05	-0.01	0.02	0.02
	BVPS fd	0.43	0.53	0.55	0.60	0.45
	Dividend per share (ord)	0.00	0.00	0.00	0.00	0.00
	Dividend per share (sav)	0.00	0.00	0.00	0.00	0.00
	Dividend pay out ratio (%)					
CASH FLOW (Eu mn)	Gross cash flow	20	18	20	32	32
	Change in NWC	9	(20)	(2)	(4)	(6)
	Capital expenditure	(15)	(20)	(15)	(17)	(18)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	28	(2)	18	29	27
	Acquisitions, divestments & others	0	7	0	1	1
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	0	0	0	0
	Change in Net Financial Position	11	(16)	3	13	10
BALANCE SHEET (Eu mn)	Total fixed assets	191	273	262	256	251
	Net working capital	69	89	92	95	101
	Long term liabilities	(28)	(69)	(69)	(72)	(75)
	Net capital employed	232	294	285	279	277
	Net financial position	(115)	(132)	(129)	(116)	(106)
	Group equity	117	162	156	163	172
	Minorities	0	0	0	0	0
	Net equity	117	162	156	163	172
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	91	91	91	91	91
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(115)	(132)	(129)	(116)	(106)
	Enterprise value	206	223	220	207	196
RATIOS(%)	EBITDA margin*	8.7%	8.8%	7.5%	9.6%	9.7%
	EBIT margin*	3.1%	3.2%	1.2%	3.9%	4.7%
	Gearing - Debt/equity	98.4%	81.5%	82.8%	71.2%	61.5%
	Interest cover on EBIT	1.4	1.5	0.5	2.1	2.9
	Debt/Ebitda	3.88	3.29	4.12	2.76	2.36
	ROCE*	4.5%	5.5%	1.7%	6.0%	7.8%
	ROE*	1.2%	-4.6%	-3.5%	4.2%	5.3%
	EV/CE	0.9	0.8	0.8	0.7	0.7
	EV/Sales	0.6	0.5	0.5	0.5	0.4
	EV/Ebit	19.4	nm	nm	12.1	9.0
	Free Cash Flow Yield	31.2%	-2.5%	19.9%	32.0%	29.9%
GROWTH RATES (%)	Sales	9.1%	32.8%	-7.9%	4.0%	6.0%
	EBITDA*	2.2%	35.1%	-21.7%	34.1%	6.3%
	EBIT*	88.6%	35.9%	-66.4%	251.8%	27.3%
	Net profit	nm	nm	nm	nm	31.3%
	EPS restated	nm	nm	nm	nm	31.3%

* Excluding extraordinary items

Source: Intermonte SIM estimates

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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and - 10% compared to the market over a 12 month period ;
UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.

The stock price indicated is the reference price on the day prior to the publication of the report.

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OUTPERFORM: 23.36%

NEUTRAL: 38.14%

UNDERPERFORM: 13.87%

SELL: 2.19%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (21 in total) is as follows:

BUY: 38.10%

OUTPERFORM: 14.29%

NEUTRAL: 47.61%

UNDERPERFORM: 0.00%

SELL: 0.00%

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DETAILS ON STOCK RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.25	Previous Target (Eu):	0.20
Current Price (Eu):	0.24	Previous Price (Eu):	0.21
Date of report:	23/11/2009	Date of last report:	07/08/2009

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